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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
27 January 1955

TO: Deputy Director, Intelligence

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SUBJECT: Possibility of Satellite Currency Reforms

The general failure of the Satellite economies to meet production targets for consumer goods since the inauguration of the new course has resulted in increased inflationary pressure. Although consumer goods have become increasingly available during the past eighteen months, wage increases, price reductions, and lower taxes have caused a disproportionately rapid advance in purchasing power.

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East Germany's economic policies, which have resulted in a widening of the gap between purchasing power and the supply of consumer goods, have caused East Germany to increase its currency in circulation from 3.5 billion to 4.7 billion eastmarks during the first fifteen months of the new course. Therefore any effective currency reform would have to eliminate some of the currency outstanding in East Germany, since only a relatively small amount is held in West Berlin. Although the widespread hoarding of currency is a matter of concern to the regime, it has not yet resulted in sufficient inflationary danger to make a full-scale currency reform necessary, especially in view of the adverse effect such a measure would have on labor morale, which the new course is trying to improve. A limited currency readjustment designed to strike at large hoards of funds and at currency held in West Berlin

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is more likely, although even such a limited measure would have an extremely unfavorable effect on the population.

Rumors of an impending currency reform have been circulating in Poland for several weeks. Poland has made reasonably good progress in expanding the supply of consumer goods, however, and the gap between purchasing power and the availability of goods does not appear large enough to require a currency reform at this time. There have also been scattered rumors of currency reforms in Hungary and Rumania, but it seems unlikely that Rumania would adopt such a measure soon after its recent abolition of rationing. In Hungary, however, the regime has admitted that inflationary pressure was controlled during 1954 only by living off inventories, and the value of the currency is estimated to have declined by about two-thirds since the 1947 currency reform. Despite the economic rationale for a currency reform, however, it would produce such widespread disaffection among the workers and peasants that it seems unlikely as long as the new course is continued. The Hungarian government will probably attempt to improvise measures to hold the inflationary pressure in check while renewing efforts to step up production.

Thus, the only country where the rumors of a currency readjustment appear plausible in the near future is East Germany, and even there the regime will have to move cautiously in order to avoid a crushing blow to worker and peasant morale, which the new course is striving to improve.

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NOTE: This memorandum has been coordinated with ORR.